

Message Text

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ACTION EUR-12

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INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

USMISSION GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

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TAGS: EFIN, EC, DA

SUBJECT: CENTRAL BANK GOVERNOR ON EUROPEAN MONETARY POLICY

SUMMARY. THE NEW CHAIRMAN OF THE EUROPEAN CENTRAL BANKERS GROUP, DANISH NATIONAL BANK GOVERNOR ERIC HOFFMEYER, BELIEVES AN IMPORTANT WEAKNESS IN ADVANCING EUROPEAN MONETARY COOPERATION IS LACK OF AGREEMENT ON EXCHANGE RATE POLICIES. HE STRONGLY ADVOCATES MORE STABLE EXCHANGE RATES, WITH US-EC COOPERATION TO THIS END AS A KEY. END SUMMARY.

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1. IN A NEWSPAPER ARTICLE (BERLINGSKE TIDENDE) ON APRIL 23, NATIONAL

BANK GOVERNOR HOFFMEYER, PRESENTLY ALSO CHAIRMAN OF THE EUROPEAN CENTRAL BANKERS GROUP, REVIEWED MONETARY DEVELOPMENTS OVER THE PAST SEVERAL YEARS, NOTING HIS INITIAL SKEPTICISM ABOUT POSSIBILITIES OF ACHIEVING EUROPEAN MONETARY UNION, WHICH HE FOUND CONFIRMED BY DEPARTURE FROM EC SNAKE COOPERATION OF UK, ITALY AND FRANCE OVER THE PAST SEVERAL YEARS. ON THOSE OCCASIONS, HE SAID, IT WAS GENERALLY EXPECTED THAT DENMARK WOULD BECOME THE NEXT DROP-OUT; THIS TRIGGERED EXTENSIVE SUPPORT PLEDGES FOR THE DANISH KRONER FROM OTHER CENTRAL BANKS. HOFFMEYER EMPHASIZED THAT DENMARK HAS NOT HAD TO UTILIZE THESE PLEDGES TO MAINTAIN ITS POSITION IN THE MINI-SNAKE.

2. HOFFMEYER BELIEVES THAT STRONG INFLATION IN THE UK AND ITALY, THEIR OBVIOUS DIFFICULTIES IN ESTABLISHING CONSTRUCTIVE ECONOMIC POLICIES, AND THE UNCERTAIN EFFECTS OF THEIR CURRENCY DEVALUATIONS HAVE PROVIDED LESSONS FOR OTHER EUROPEAN COUNTRIES AND CONTRIBUTED TO AN INCREASED INTEREST IN RETURNING TO MORE STABLE EXCHANGE RATES. IN THIS REGARD, HE NOTED THAT THE FRENCH FRANC HAS BEEN MOVING CLOSELY PARALLEL TO THE MINI-SNAKE AND THAT THE SWISS HAVE RECENTLY TALKED OF JOINING THE SNAKE. IN THESE MOVES, HOFFMEYER SAW THE POTENTIAL DEVELOPMENT OF A WIDER EUROPEAN MONETARY COOPERATION, NOT NECESSARILY DOMINATED BY THE EC BUT WITH THE EC AS THE NUCLEUS.

3. REFERRING TO DEVALUATION AS A TRANQUILIZER PERMITTING COUNTRIES TO OVERLOOK NECESSITIES FOR AUSTERITY IN SPENDING AND INVESTMENT, HOFFMEYER FELT DENMARK WAS CHOOSING THE RIGHT PATH. HE APPLAUDED THE DANISH GOVERNMENT'S RECENT FISCAL AND INCOMES POLICY DECISIONS WHICH HE FELT RECOGNIZED THE PRINCIPLE THAT UNEMPLOYMENT MUST BE SOLVED THROUGH INCREASING EXPORTS.

4. WHILE ADHERENCE TO THE SNAKE HAS CAUSED SOME STRAINS, HOFFMEYER FELT THAT THIS EXTERNAL DISCIPLINE HAS PERMITTED THE IMPLEMENTATION OF A SENSIBLE MONETARY POLICY AND FORCED REALISTIC SOLUTIONS OF MAIN DOMESTIC ECONOMIC PROBLEMS.

5. HOFFMEYER SAW THE FAILURE OF THE EUROPEANS TO DEVELOP A CLEAR POLICY TOWARD THE DOLLAR AS A RESTRAINT TO FURTHERING EUROPEAN MONETARY COOPERATION. HE SAID THAT THE U.S. SEEMS TO

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HAVE SIGNIFICANTLY LESS INTEREST IN ACHIEVING STABLE EXCHANGE RATES AMONG MAJOR CURRENCIES THAN DO THE WESTERN EUROPEAN COUNTRIES, BUT HE NOTED THAT THERE WERE ALSO DIFFERENCES OF VIEW AMONG THE EUROPEANS. HE SAW THE FRENCH FRANC AS MORE SENSITIVE TO DOLLAR MOVEMENTS THAN THE DMARK, AND THE DANISH KRONER AS VERY SUSCEPTIBLE TO PRESSURES WHEN THE SNAKE MOVES UPWARD AGAINST THE DOLLAR.

6. HOFFMEYER CONCLUDED HIS COMMENTS BY SAYING THAT THE SUCCESS OF EUROPEAN MONETARY COOPERATION WOULD BE CONTINGENT UPON A CLEARLY ESTABLISHED POLICY ON RELATIONS WITH THE DOLLAR.

7. EMBASSY COMMENT. IN THIS ARTICLE, HOFFMEYER ARTICULATED HIS LONG-FELT VIEWS THAT AN "UNDERVALUED DOLLAR" NOT ONLY CAUSES TRADE DISTORTIONS BUT DISTURBS INTERRELATIONSHIPS AMONG EUROPEAN CURRENCIES. HE IS, OF COURSE, PRINCIPALLY INTERESTED IN THE EFFECTS ON THE DANISH KRONER BUT, IN HIS NEW CAPACITY AS EUROPEAN CENTRAL BANKERS GROUP CHAIRMAN, IS LOOKING ALSO AT THE BIGGER PICTURE.

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